

## Message Text

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC IMMEDIATE 5301

S E C R E T MOSCOW 14362

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FROM ROBINSON

E. O. 11652: GDS

TAGS: ETRD, EEWT, UR, US

SUBJ: GRAIN/OIL NEGOTIATIONS

REF: STATE 239604

1. BEGIN SUMMARY: I MET WITH PATOLICHEV AND KUZ'MIN AT 11 A.M. THIS MORNING ACCOMPANIED BY AMBASSADOR STOESSEL FOLLOWING RECEIPT OF INSTRUCTIONS IN REFTEL. WE WERE LATER JOINED BY BELL OF FEA AND MERKULOV (PRESIDENT OF SOYUZNEFTEEXPOR) AND MELNIKOV (MINISTRY OF FOREIGN TRADE, USA DESK) FOR WHAT TURNED OUT TO BE A THREE-HOUR SESSION. WE PRESENTED OUR DEMAND FOR A 15 PERCENT DISCOUNT ON THE OIL PRICE COUCHED IN TERMS THAT WE FELT WOULD BE LEAST OFFENSIVE. THE RESPONSE FROM PATOLICHEV WAS AN IMMEDIATE "NO, NO, NO, NEVER." THE REASONS FOR THIS POSITION WERE EXPLAINED IN STRONG EMOTIONAL TERMS AS REPORTED IN MORE DETAIL BELOW. I ADVISED HIM THAT I WILL DEPART MOSCOW AT ABOUT 10 A.M. TOMORROW, THURSDAY. END SUMMARY.

2. AFTER EXPLAINING THAT WE REQUIRED A 15 PERCENT DISCOUNT ON THE OIL PRICE, WE INDICATED THAT THIS COULD BE HANDLED THROUGH A REVISION OF CLAUSE 6 IN THE OIL LETTER OF INTENT OR ALTERNATIVELY BY A SIDE LETTER WITH THE FOLLOWING TEXT: "IT IS UNDERSTOOD THAT THE PRICE OF CRUDE OIL AND PETROLEUM PRODUCE PTEZFOAYBFCYMYBP MMYWDLXWT&553?&

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TO ENTER INTO SHALL BE ESTABLISHED ON THE BASIS OF WORLD PRICES. TO TAKE ACCOUNT OF TRANSPORTATION AND OTHER FACTORS, INCLUDING THE NEED FOR SUCH CRUDE OIL TO BE COMPETITIVE IN UNITED STATES MARKETS, IT IS AGREED THAT THE PRICE OF SIMILAR QUALITY SOVIET OIL, F.O.B. NOVOROSSISK, SHALL BE 15 PERCENT LESS THAN THE F.O.B. MARKET PRICE, RAS TANURA, OF 34 DEGREE ARABIAN LIGHT CRUDE OIL. PETROLEUM PRODUCTS SHALL BE PRICED AT THE COMPETITIVE EQUIVALENT OF THE PRICE OF CRUDE OIL. UNLESS OTHERWISE AGREED BY THE PARTIES, ALL OTHER TERMS AND CONDITIONS SHALL BE IN ACCORD WITH NORMAL COMMERCIAL PRACTICES."

3. PATOLICHEV REJECTED THIS IDEA IMMEDIATELY AND IN HARSH TERMS MAKING THE FOLLOWING POINTS:

A. TO SELL OIL TO THE U.S. AT ALL REPRESENTS A MAJOR SACRIFICE AS THIS OIL CAN ONLY BE MADE AVAILABLE THROUGH IMPOSING FURTHER SACRIFICES ON THE DOMESTIC ECONOMY.

B. THE WORLD WOULD CONSIDER THEM "IDIOTS" AND INTERNALLY THEY COULD BE ACCUSED OF "HIGH TREASON."

C. HE VIEWED MY DEMAND FOR A PRICE DISCOUNT AS "UNBELIEVABLE AND OFFENSIVE."

D. HE STATED THAT WHEN SECRETARY GENERAL BREZHNEV REPORTED TO THE POLITBURO ON THE HELSINKI DISCUSSIONS REGARDING OIL THERE WAS ABSOLUTELY NO REFERENCE TO ANY PRICE DISCOUNT.

E. WHEN I MENTIONED THAT OUR POSITION ON THE PRICE DISCOUNT HAD BEEN EXPLAINED TO AMBASSADOR DOBRYNIN, HE INDICATED THAT HE HAD NOT HEARD OF THIS AND IN ANY EVENT THAT THIS WAS OUT OF ORDER AS HE, PATOLICHEV, HAD BEEN CHARGED WITH THE SOLE RESPONSIBILITY FOR CONDUCTING THESE NEGOTIATIONS.

F. HE STATED THAT IN BOXING THIS WOULD BE VIEWED AS A BLOW "BELOW THE BELT" FOR WHICH THERE IS A VERY SEVERE PENALTY.

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G. WITH REGARD TO OUR ASSURANCE OF MAINTAINING SUCH A DISCOUNT CONFIDENTIAL, HE REPORTED THAT HE HAD HEARD THAT TWO SENATORS HAD STATED PUBLICLY YESTERDAY THAT BECAUSE OF THE SOVIET NEED FOR GRAIN WE WERE GOING TO OBTAIN A 15 PERCENT DISCOUNT ON OIL. IT WAS APPARENT THAT THERE WAS NO WAY THAT THIS COULD BE MAINTAINED IN CONFIDENCE.

H. HE ALSO UNDERSTOOD THAT THERE WAS A SENATE RESOLUTION

REQUESTING THAT WE TRY TO OBTAIN THE 15 PERCENT DISCOUNT AND HE CAN ONLY ASSUME THAT MY PRESENT EFFORT WAS IN COMPLIANCE WITH THAT DEMAND.

I. KUZ'MIN WITH PATOLICHEV'S SUPPORT INDICATED THAT WE WERE TRYING TO DESTROY THE USSR'S RELATIONS WITH OIL PRODUCERS AND CONSUMERS THROUGHOUT THE WORLD BY DEMANDING A DISCOUNT. THIS THEY COULD NEVER DO. HE WENT ON TO SAY THAT THIS WAS A HUMILIATING AND OFFENSIVE PROPOSAL.

J. FINALLY, PATOLICHEV INDICATED THAT OUR PRESSING THIS DEMAND WOULD PLACE THE NEXT MEETING BETWEEN PRESIDENT FORD AND BREZHNEV ON AN UNSATISFACTORY BASIS. CONTINUED PRESSURE ON THIS FRONT COULD START A DOWNWARD TREND IN OUR OVERALL RELATIONS WHICH COULD ULTIMATELY LEAD US BACK TO THE COLD WAR WITH ITS IMPLIED THREATS.

4. PATOLICHEV SPECIFICALLY REQUESTED ME TO TELL PRESIDENT FORD THAT THE SOVIETS WILL CONTINUE TO SHOW RESPECT FOR OUR GREAT NATION BUT, AS THE USSR IS ALSO A GREAT NATION, THEY COULD NEVER REPEAT NEVER ACCEPT THE KIND OF UNILATERAL PRESSURE IMPLIED BY OUR DEMAND FOR AN OIL PRICE DISCOUNT.

5. IN A PRIVATE DISCUSSION WITH PATOLICHEV ALONE FOLLOWING THE MEETING, WE DISCUSSED THE QUESTION OF WHETHER OR NOT THERE WOULD BE A PARALLEL RESPONSE FROM THE SOVIETS THROUGH THE DOBRYNIN ROUTE. HE TOLD ME THAT HE DID NOT KNOW WHETHER SUCH A RESPONSE WOULD GO FORWARD BUT STATED UNEQUIVOCALLY THAT, IF IT DID, IT WOULD BE THE SAME KIND OF RESPONSE WHICH HE HAD GIVEN ME DIRECTLY.

6. I ADVISED PATOLICHEV THAT WE WOULD REPORT THEIR POSITION TO WASHINGTON AND I WOULD DEPART MOSCOW AT ABOUT 10 A.M.

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TOMORROW, THURSDAY. I DID SUGGEST THE POSSIBILITY OF A FINAL SHORT MEETING TO SAY GOODBYE PRIOR TO MY DEPARTURE.

7. WE WILL CONTINUE TO HOLD OUR POSITION THAT WE MUST HAVE A COMMITMENT TO A 15 PERCENT PRICE DISCOUNT BEFORE WE CAN ACCEPT THE LONG-TERM GRAIN AGREEMENT AND THE OIL LETTER OF INTENT. WE AND THE SOVIETS HAVE BOTH CONFIRMED THAT THESE LATTER DOCUMENTS ARE NOW READY FOR INITIALING BUT OUR POSITION IS CLEAR THAT WE MUST ALSO CONCLUDE AN OIL PRICE DISCOUNT AGREEMENT AT THE SAME TIME. (PATOLICHEV INDICATED SURPRISE THAT I DID NOT HAVE AUTHORITY TO SIGN, WHICH WAS THE BASIS UNDER WHICH HE HAD BEEN CONDUCTING THESE NEGOTIATIONS.)

8. IN MY JUDGMENT THERE WILL BE NO BENDING ON THE PART OF THE SOVIETS FROM ANY PRESSURE I CAN APPLY HERE TO OBTAIN AN

OIL PRICE DISCOUNT. ACCORDINGLY, I WILL DEPART MOSCOW  
TOMORROW MORNING LEAVING THE GRAIN AGREEMENT AND OIL LETTER  
OF INTENT IN THE AIR.  
STOESSEL

NOTE BY OC/T: MOSCOW 14362; #PARA. 2 GARBLED. CORRECTION TO FOLLOW.

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## Message Attributes

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